

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

TRADE POLICY STAFF COMMITTEE

CERTAIN STEEL PRODUCTS

INVESTIGATION NO. TA-201-73

EXCLUSION REQUEST

ON BEHALF OF

KATAKURA STEEL TUBE CO., LTD

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TABLE OF CONTENTS

I.	EXECUTIVE SUMMARY	1
II.	PRODUCT INFORMATION.....	2
A.	Designation of Product Under Recognized Standard and HTS Numbers	2
B.	Physical Description of Product	2
C.	Basis for Exclusion.....	2
D.	Names and Locations of Foreign and Domestic Producers	5
E.	Total U.S. Consumption	5
F.	Total U.S. Production	6
G.	U.S. Produced Substitute for Imported Product	6
III.	CONCLUSION.....	7

On behalf of Katakura Steel Tube Co., Ltd. ("Katakura"), we request exclusion of certain welded, cold-drawn tubing from any import relief ordered by the President in the Section 201 investigation of *Certain Steel Products*. In accordance with the guidelines established by the Office of the United States Trade Representative¹, we submit the following information in support of our request.

I. EXECUTIVE SUMMARY

Katakura produces cold-drawn (drawn over a mandrel ("DOM")) tubing used in oil rod lift pumps for [Customer], one [DELETED MATERIAL] rod lift pump manufacturers in North America. [Customer] uses Katakura's product to manufacture the tubing outer sleeves ("barrels") that are an integral part of the pumps. [Customer] has been unable to secure a reliable domestic manufacturer of this product to its required quality and tight tolerance standards. Unlike U.S.-produced tubing, Katakura's product does not require further honing to the inner diameter ("ID"), which substantially lowers [Customer's] production costs. The only domestically produced tubing that meets [Customer's] standards is [DELETED MATERIAL]. Because extending import relief to this product would harm an important domestic rod lift pump manufacturer, it should be excluded from any relief ordered by the President in this investigation.

¹ See 66 Fed. Reg. 54,321, 54,322-23 (Oct. 26, 2001).

II. PRODUCT INFORMATION

A. Designation of Product Under Recognized Standard and HTS Numbers

1. **Designation:** Welded cold-drawn DOM tubing used in oil lift pumps and produced to American Society for Testing and Materials ("ASTM") Standard A-513 grade 1026 type 6.²
2. **HTS Classification:** 7306.30.5015 and 7306.30.5055.

B. Physical Description of Product

1. **Mechanical Properties:** tensile strength = 75,000 psi; yield strength = 65,000 psi; elongation = 10%.
2. **Hardness:** 90 HRB (Min) and 23 HRC (Max).
3. **Chemical Composition:** Carbon (0.22-0.28); Manganese (0.60-0.90); Phosphorus (0.040 Max); Sulfur (0.050 Max).
4. **Surface Finish:** 63 RMS (Max).
5. **Inner/Outer Diameter Specifications**
 [OD Range: 1.500" to 3.750"]
 [ID Range: 1.25" to 3.25"]

C. Basis for Exclusion

1. **Statutory Basis for Exclusion**

The statutory framework governing Escape Clause investigations requires the President to balance the economic welfare of the country with that of the affected industry in determining appropriate remedial action in response to an affirmative injury finding by the International Trade Commission. Section 203(a) of the Trade Act of 1974 states that, upon receiving the Commission's report, the President shall take "all appropriate and feasible action within his

² Katakura's prehearing remedy exclusion brief filed with the International Trade Commission and [Customer's] attached letter (see Exhibit A), incorrectly define the requested exclusion as type 5 of A-513 grade 1026. This tubing comes under Category 20 (Welded tubular products other than OCTG) of the International Trade Commission's product classification.

power which the President determines will facilitate efforts by the domestic industry to make a positive adjustment to import competition *and provide greater economic and social benefits than costs.*³ Among other things, the President must consider “the short- and long-term economic and social costs of the actions authorized . . . relative to their short- and long-term social benefits and other considerations relative to the position of the domestic industry in the United States economy.”⁴ The President must also consider “other factors related to the national economic interest of the United States, including, but not limited to . . . the effect of the implementation of actions . . . on consumers and on competition in domestic markets.”⁵ Ultimately, the cumulative impact of any import restrictions imposed may not “exceed the amount necessary to prevent or remedy the serious injury” found.⁶

Where there is no domestic production of a product consumed in the United States and where the only domestically available substitute is inadequate to meet the needs of domestic consumers, restricting imports of the product will harm domestic consumers without providing any concomitant benefit to the domestic steel industry. Lack of domestic production is therefore a proper ground for excluding a product from import relief.

2. Factual Basis for Exclusion

Katakura produces cold-drawn DOM tubing used in rod lift pumps for [Customer], which is [DELETED MATERIAL] rod lift pump manufacturers in North America. Over 90% of North America’s oil supply is extracted by rod lift pumps. [Customer] uses Katakura’s product to manufacture the tubing outer sleeves (“barrels”) that are an integral part of the pumps. The plunger inside the barrel creates a suction pressure, drawing oil into the barrel while the valve at

³ 19 U.S.C. § 2253(a)(1) (emphasis added).

⁴ *Id.* § 2253(a)(2)(E).

⁵ *Id.* § 2253(a)(2)(F)(ii).

⁶ *Id.* § 2253(e)(2).

the bottom of the barrel is open. The tubing's ID must have a smooth surface and tight tolerance to assure creation of the suction pressure.

As it states in an October 29, 2001 letter to the International Trade Commission (*see* Exhibit A), [Customer] purchases the tubing from Katakura because, unlike previous U.S. manufacturers, Katakura consistently produces high quality tubing which does not require further honing by [Customer], thereby lowering production costs. Until six months ago, no U.S. mill was willing to attempt production of the tubing to the ID surface quality and tight tolerance required by [Customer]. The only domestically available product would have required substantial and costly honing by [Customer]. Within the past two months, [a domestic producer] has attempted production of DOM tubing for rod lift pumps to [Customer's] requirements. [DELETED MATERIAL]. [Customer] has no guarantee that the manufacturer ultimately will be able to produce the tubing to the necessary ID surface quality and tight tolerance on a consistent basis.

Because [Customer] has no assurance that it can find an acceptable domestic supply of DOM tubing for rod lift pumps, it must retain unfettered access to imports of Katakura's product. Moreover, even if [domestic producer] is able to produce the tubing to acceptable standards, [Customer] must continue to import Katakura's product. The reason that the company approached the U.S. manufacturer in the first place was to diversify its supplier base. Restricting imports of this product will put [Customer] back in the same position it finds itself -- having to rely on a single supplier.

The market for cold-drawn DOM tubing for oil lift pumps is such that [Customer] requires unrestricted access to imports of Katakura's product. Absent such access, [Customer] will incur substantial production costs from further honing operations or -- in the best case

scenario -- will have to rely on only one U.S. manufacturer to supply tubing that meets its required standards. Because extending Section 201 relief to this product would harm an important domestic rod lift pump manufacturer, it should be excluded from any import relief ordered by the President in this investigation.

D. Names and Locations of Foreign and Domestic Producers

1. **Foreign Producers:** Katakura (Japan)
2. **Domestic Producers:** [DELETED MATERIAL]

E. Total U.S. Consumption⁷

Actual Consumption

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Jan-June</u> <u>2000</u>	<u>Jan-June</u> <u>2001</u>
Quantity⁸ (ST)	[56	36	76	0	60	0	37]
Value⁹ (\$)	[80,040	50,499	101,610	0	85,002	0	46,833]

⁷ The consumption data (actual and projected) reported in this table have been summarized by ranging (+/- 10%).

⁸ The quantities reported in this table reflect [Customer's] consumption of only Katakura's product. [Domestic producer] has not supplied [Customer] with significant quantities of this product because [DELETED MATERIAL]. The reported quantities of Katakura's product differ from those in Katakura's pre-hearing remedy exclusion brief to the International Trade Commission. The difference reflects a previous, inadvertent error in converting the quantities from metric tons to short tons.

⁹ The consumption values reported in this table are estimated customs (entered) values of Katakura's product based on exports prices (FOB Japan).

Projected Consumption¹⁰

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Quantity (ST)	[504	1,402	DELETED	DELETED	DELETED]

F. Total U.S. Production

[Domestic producer] has produced [DELETED MATERIAL] this year. The estimated aggregate quantity is [DELETED MATERIAL] short tons.

G. U.S. Produced Substitute for Imported Product

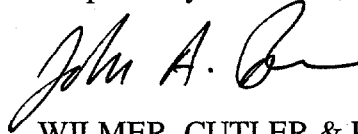
Domestic producers such as [DELETED MATERIAL] cannot produce DOM tubing to the tight ID tolerance and smoothness required by [Customer]. Overall, domestic producers have the capacity to manufacture approximately 70,000 tons of DOM tubing.

¹⁰ The [DELETED MATERIAL] in consumption for 2002 is the result of a [DELETED MATERIAL]. On the whole, the projected quantities are conservative estimates of [Customer's] needs. This product is very sensitive to the price of oil.

III. CONCLUSION

Because domestic producer cannot manufacture cold DOM tubing for oil lift pumps to the requirements of the largest domestic rod lift pump manufacturers, it should be excluded from any import relief ordered by the President.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John A. Cassidy". The signature is fluid and cursive, with a large initial "J" and a stylized "C" at the end.

WILMER, CUTLER & PICKERING

Robert C. Cassidy, Jr.
John D. Greenwald
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John-Alex Romano

Counsel for Sumitomo Metal Industries, Ltd.

PUBLIC VERSION
Proprietary Information
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EXHIBIT A:

CUSTOMER LETTER

PUBLIC VERSION
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[**Summary of Proprietary Exhibit**

Document: Letter from Domestic Customer Requesting Exclusion of DOM Tubing Used in Rod Lift Pumps Produced by Katakura.

Contents: The letter discusses the same aspects of Katakura's product that are discussed in Katakura's exclusion request: Katakura consistently produces high quality tubing that does not require further honing by the customer; the customer has not been able to find similarly high quality tubing from U.S. producers; the tubing available from U.S. producers requires substantial and costly additional honing; and the customer has no guarantee that it can find an acceptable domestic supply of DOM tubing for rod lift pumps.]